

IV. STANDARD OFFER SERVICE FUEL ADJUSTMENT

Q. Is FG&E proposing to revise its Standard Offer Service Fuel Adjustment ("SOSFA") in this filing?

A. Yes. FG&E proposes a SOSFA of \$0.01185 per kWh to be effective January 1, 2004. When combined with the base Standard Offer rate of \$0.05100 per kWh, the total rate to be billed for Standard Offer Service is \$0.06285 per kWh.

Q. What is the difference between the proposed SOSFA and the current SOSFA?

A. The proposed SOSFA is a decrease of \$0.00239 per kWh versus the current rate of \$0.01424 per kWh. This represents a decrease of \$1.20, or 1.74 percent on a 500 kWh typical residential bill, as shown in the summary table of proposed rates included with the cover letter.

Q. How is the proposed SOSFA for January 1, 2004 determined?

A. FG&E has utilized actual fuel index data through October 2003 for fuel oil and natural gas market prices to calculate the fuel adjustment. It has applied this fuel index data to the 2004 Standard Offer fuel trigger and price and determined a rate of \$0.01185 per kWh.

Q. Have you prepared a schedule demonstrating these calculations?

A. Yes. Schedule DJD-1, page 1 demonstrates the calculation of the SOSFA using the detailed fuel index data shown on Schedule DJD-1 pages 2 and 3.

1 Q. What are the prices used to determine the 12-month averages of fuel index data?

2 A. The 12 month average market gas price is \$5.368/MMBtu and the 12 month average
3 market oil price is \$4.320/MMBtu.
4

5 Q. What is the Fuel Adjustment factor calculated to be?

6 A. The Fuel Adjustment factor is calculated to be 1.23243. When applied to the base
7 Standard Offer Service rate of \$0.05100 per kWh it yields the proposed rate of \$0.05100
8 per kWh and an SOSFA of \$0.01185.
9

10 Q. Is this calculation consistent with the Department precedent?

11 A. Yes. On December 4, 2000, the Department approved a uniform SOSFA mechanism in
12 dockets D.T.E. 00-66, 00-67, and 00-70. The calculation presented in this filing is
13 consistent with Department precedent in that proceeding. It is also consistent with the
14 methodology approved in FG&E's recent reconciliation filings as well as its April and
15 August 2003 SOSFA filings.
16

17 Q. What is the current level of deferrals under the SOSFA?

18 A. The current and forecasted level of deferrals and monthly SOSFA costs are set forth on
19 Schedule DJD-1, pages 5 and 6. This schedule includes FG&E's year end 2000 SOSFA
20 balance of \$2,622,479, accumulated between April and December 2000, which was
21 transferred to its SOS balance in November, 2002. The SOSFA has a current deferral
22 balance of \$1.2 million as of October 31, 2003. Schedule DJD-1, page 5, line 16.

1 Q. What level of deferrals does FG&E calculate to exist by year end 2003?

2 A. The SOSFA deferrals are expected to increase to \$1.3 million by year end 2003. See
3 Schedule DJD-1, page 5, line 16. Further, FG&E expects that, if the Department allows
4 the proposed SOSFA of \$0.01185 per kWh to take effect on January 1, 2004 and remain
5 in effect, the current level of deferrals is forecasted to be \$447,288 at year end 2004 and
6 \$221,333 at the end of the Standard Offer period on February 28, 2005. See Schedule
7 DJD-1, page 6, line 16.

8
9 Q. How is the SOSFA cost per kWh forecasted?

10 A. The SOSFA cost per kWh through February 2005 is forecasted assuming the market
11 price of oil remains constant over the forecast period at its most recent October 2003
12 price level. Schedule DJD-1, page 4. The market price of gas is forecasted based on the
13 NYMEX futures contract settlement price for November 14, 2003 as shown in the
14 November 17, 2003 Wall Street Journal (reported online at <http://online.wsj.com>).
15 Pursuant to FG&E's current tariff M.D.T.E. No. 99, the fuel trigger point and SOS price
16 of \$7.01/MMBtu and \$0.04700/kWh is used for November through December 2003 and
17 \$7.74/MMBtu and \$0.05100 per kWh is used for January 2004 through February 2005.
18 The SOSFA cost per kWh is forecasted to level off about mid-year 2004 under these
19 assumptions.

20
21 Q. What is FG&E's proposal for the SOSFA going forward?

1 A. FG&E proposes that it continue the SOSFA at the proposed level until a new SOSFA is
2 approved. FG&E will monitor its SOSFA deferrals during 2004 and any adjustments to
3 the SOSFA rate may be proposed if deemed to be necessary. FG&E would prefer to
4 eliminate as much of the SOSFA deferrals as possible prior to the expiration of the SOS
5 period on March 1, 2005. As indicated above, under current projections, only a small
6 deferral would exist at the end of the SOS period assuming FG&E's proposed SOSFA is
7 approved.

8
9 **V. PROPOSED REDLINE TARIFFS**

10 Q. When does FG&E propose that the tariff changes presented in this filing take effect?

11 A. The new rates and tariffs are proposed to become effective for usage consumed on and
12 after January 1, 2004.

13
14 Q. Can you briefly describe the changes in these tariffs.

15 A. The changes in the tariffs, fully reflected in a redlined version attached as Schedule DJD-
16 2, reflect the change in the UTC from \$0.01187 per kWh to \$0.00982 per kWh.

17
18 Q. Have you provided a calculation of the UTC?

19 A. Yes, I have. The UTC is as described below in Section VII, Rate Design and Schedule
20 DJD-4.